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# REPARATIONS

THE CONTRACT MADE  
BY GERMANY AND HER  
ABILITY TO FULFILL IT



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## Reparations

After more than two years of argument and recrimination, the gist of which it is unnecessary to pass in review here, Germany signed early in May of this year an agreement to liquidate in full the Reparations bill presented her by the Reparations Committee acting under the Authority vested in it by the Treaty of Versailles.

The terms of this contract are given in full at the end of this pamphlet.

As this agreement indicates, Germany is obliged to deliver to the Reparations Commission bearer bonds for the total amount of her debt of 132 billion gold marks. The Reparations Commission, however, will only issue bonds to the value of 50,000,000,000 marks gold in 1921. Germany undertakes to meet an annual charge of 6 per cent or 3,000,000,000 gold marks on these bonds from the date of their issue. Of this 6 per cent charge 5 per cent will be devoted to the payment of interest on whatever bonds are outstanding at any time, and 1 per cent to a sinking fund for the redemption of the bonds by annual drawings at par.

The balance of the bonds, 82,000,000,000 marks gold, will only be issued by the Reparations' Commission when it is convinced that Germany is able to provide for their interest and sinking fund charges in addition to her annual liabilities on the first series of bonds issued. In making this last provision the Reparations Commission obviously intended to deprive Germany definitely of the contention that payments were being required of her which she was incapable of making.

Germany's ability to meet the payments demanded of her in the present contract has been formally admitted by both Chancellor Wirth and Herr Rathenau. These admissions have but confirmed the contentions of those who have studied Germany's present economic power and strangely enough, it is the Germans themselves who have supplied the facts on which these studies are based.

One of the most authoritative sources of information on Germany's economic power is Dr. Karl Helffrich, one time managing director of the Deutsche Bank, later Minister of Finance and Vice-Chancellor of the German Empire. In 1914 Dr. Helffrich read a paper to the directors of the Deutsche Bank, analyzing with great care Germany's business condition and its probable future development. His conclusions are of great interest to us to-day, for, after making due allowance for the territorial cessions Germany was obliged to make under the Peace Treaties, cessions surrounded with alleviating clauses, they are the basis upon which an estimate of Germany's present economic strength can be made.

### **Germany's Expansion as Shown by Helffrich**

Dr. Helffrich traced with just pride the expansion of Germany's population in thirty years. He stated that in 1914 it was 60 per cent larger than that of France and that it was increasing twelve times as fast. He explained that the greater density of population in Germany was not due to the domestic virtues of the Germans, but to the vast resources of the country, which allowed rapidly increasing numbers to make a living. He made it obvious that Germany was naturally the richest country in Europe, being endowed with the most valuable and varied resources, notwithstanding the absence of a genial climate.

It was these extraordinarily valuable material and human resources which enabled the country rapidly to advance from poverty to vast wealth. From 1882 to 1907 machinery in use had increased its capacity from 2,000,000 to 8,000,000 H.P. In 1913, 36,000 industrial establishments, of which 400 alone employed 1,000,000 workmen, covered the country. In 1913 there was a total of \$6,000,000,000 invested in joint stock companies. Deposits in banks, industrial concerns and savings banks exceeded \$7,400,000,000. In one-quarter of a century these deposits had increased five and one-half times.

Agriculture had greatly progressed, due to the ever-increasing use of fertilizers. German potash beds produced

11,000,000 tons of raw potash in 1912. Germany's production of wheat and rye was nearly double that of France. Her production of barley was three times as great; of oats twice as great; of potatoes four times as great. She produced three times as much sugar, and her coal production was six and one-half times as great.

### Increases in Building and Public Utilities

The country's building industries employed 1,500,000 men. Telegraphic, telephonic and postal communications had increased five times in twelve years, and the railway systems had progressed from 42,000 to 62,000 kilometers, while the German merchant marine rose beyond 4,000,000 tons dead weight. Dr. Helffrich estimated the total revenue of the German people at \$12,200,000,000 in 1913.

Herr Steinmen Bucher, another noted German economist, placed Germany's national wealth in the same year at \$87,500,000,000, basing this figure on a computation of the value of movable property, of the value of land in cities and country, of German wealth invested in foreign securities, of railways belonging to different governments of the Empire, state mines, public buildings, canals, ports, etc., of ships and goods in transit, and of specie.

In this connection he wrote: "Formerly, we were told, the wealth of Germany amounted to \$50,000,000,000, that of France to \$50,000,000,000, and that of Great Britain to \$60,000,000,000. Today Germany's wealth comes to \$87,500,000,000, France's to \$60,000,000,000, and Great Britain's to \$90,000,000,000. In twenty years Germany will have a national wealth of \$150,000,000,000, which should compare with a wealth of \$80,000,000,000 in the case of France and of \$105,000,000,000 in the case of Great Britain."

The German group which most widely advertised these favorable facts in 1913 and in 1914 to-day is the most insistent in proclaiming Germany's economic ruin. To prove its contention, it points to the clauses of the Treaty of Versailles which force Germany to make territorial cessions and to turn over her merchant fleet to the Allies. It also seeks

to draw the eyes of the world to the deplorable condition of its country's finances.

### War Has Not Crippled the Steel Industry

It is true that Germany has lost a portion of her wealth-producing resources owing to the war. Alsace-Lorraine she has lost permanently. The mines of these provinces furnished her in 1913 with 50 per cent of her iron ore, but she is now able to import whatever tonnage of ore she requires from France at no crippling advance over the prices she paid prior to 1914.

Further, Germany has already very nearly completed the reorganization of her iron and steel industry. The steel trust of 1913 has been replaced by the Eisenwirtschaftsbund and other important mergers have either been carried out or are in the discussion and negotiation stage. Since the return of Alsace-Lorraine to France the German iron and steel industry has turned more and more markedly to the production of finished products as opposed to its former production, which was largely of semi-finished and raw products.

The permanent cession of the coal fields of Alsace-Lorraine and the temporary cession of the Saare Basin will not in any way lessen Germany's ability to meet her coal requirements, as these fields consumed slightly more than their own production in 1913. The provinces in the East which Germany lost to Poland are rich agriculturally and will materially reduce Germany's agricultural power. However, they were not densely populated and there can be no question but that Poland will find it advantageous to export to Germany the excess food products which these provinces produce; in fact, this was the case in 1920.

Germany has not lost Upper Silesia, where important coal fields and the numerous industrial establishments were situated. The plebiscite recently taken in this province showed that a majority of its inhabitants favored remaining under German rule, and while some compromise will probably be made which will cede the southern section of the province

to Poland, Germany's economic power will not be very materially reduced by such a loss of territory.

### **5,000,000 Population in Ceded Territory**

The territorial cessions which Germany was obliged to make deprived her of only about 5,000,000 population. Her powerful and unique geographical position, together with the configuration and favorable nature of her soil and her climate, cannot be taken away, and she will still possess the Ruhr coal field, which alone contains more coal than all the deposits in the United Kingdom. At the International Geographical Congress held in Canada in 1913, Germany's total coal resources, outside of Upper Silesia and the Saare Valley, were shown to be 227,440,000,000 tons, as against the total resources of the United Kingdom of 189,535,000,000 tons.

In Germany itself it is recognized that while the Peace Treaty may have retarded her future economic development somewhat, it will, in the long run, affect it but little. The German Government lately voted 400,000,000 gold marks for the construction of the Rhine-Elbe canal. Considerable sums of money have been advanced for harnessing rivers which at present run to waste. Within the last year huge deposits of lignite have been discovered, and plans for their working have been drawn up and the necessary capital supplied. The Germans hope that by drainage and newly discovered irrigation methods they will be soon able to put under crop 2,500,000 more acres of land than are at present under cultivation.

Further, it must not be forgotten that while practically all of the Allied countries suffered material damage due to invasion, Germany suffered not at all in this respect. If proof of this fact were necessary, Germany's favorable trade balance in 1920 would be sufficient.

### **Abolition of Conscription and Gain in Man Power**

Germany points to her man-power loss as one of the causes of her impoverishment, but she lost fewer men in proportion than France, Russia and Poland. Further, before the war,

her conscript armies deprived her of 1,000,000 workers between the ages of 19 and 40. The Treaty of Versailles reduces this force to a permanent army of 100,000 men. This means a clear gain to Germany of over 800,000 workers.

The finances of the German Republic are in a deplorable condition, but the German people, as distinguished from the State, are in no distress, except that percentage which lives on fixed incomes—which has suffered severely. The majority of Germans are living in as great comfort now as they ever have.

In spite of much waste, the "Frankfurter Zeitung," in one of its recent issues, stated that Germany's savings banks deposits increased in 1918 by 6,500,000,000 marks, by 4,500,000,000 marks in 1919, and by 6,259,000,000 marks in 1920. During these three years the working people of Germany set aside a sum which even at the present rate of exchange is equal to over \$400,000,000 gold.

The German State itself has until lately been fast approaching bankruptcy. It has squandered money in an astounding manner. Since the armistice it has subsidized every conceivable scheme. It has distributed funds to assist unemployment and to cheapen food. It is running every government department at a dead loss. In the last year the State railways showed a deficit of earnings over operating cost of 16,000,000,000 marks, at normal rates of exchange a sum larger than it cost to construct them. The German Post Office is faced with a deficit of 2,000,000,000 marks.

#### **German Officials Numbered 2,000,000**

In November of last year a German newspaper estimated that the German Government maintained 2,000,000 officials, who, with their families, totaled one-eighth of the population of the country. In 1914 there were in the five Imperial Civil Service Administrations a little less than 5,500 employes; there are now 80,000. Before the war the German postal telegraph service employed 168,000 persons; to-day, for a country which has been reduced in size and population, it employs 205,000. In 1914 the State railroads employed

slightly over 300,000 men and women either temporarily or permanently; they now employ 480,000.

Germany loudly proclaims that she is disarming, yet in her regular budget for 1920 she sets aside 2,500,000,000 marks for the upkeep of 100,000 men, and in the extraordinary budget she allocates a further 1,700,000,000 marks to the Army. Even allowing for the rise in the cost of living, for the loss in the value of the mark, and for the fact of a professional army, it is difficult to explain this increase.

An instance of State extravagance which borders on the ridiculous is the employment office established by the German Ministry of Labor, which itself employs 7,000 officials and clerks.

Of the vast sums provided for public expenditure by the German budget of 1920, less than 35 per cent was to be derived from taxation. According to the League of Nations, Germany pays 12 per cent of her national income to the State in the form of taxes; the United States pay 8 per cent; Great Britain pays 27 per cent; and France pays 18 per cent.

### Tax Resources That Are Still Available

Whereas prices in Germany have increased fourteenfold as compared with those of 1913, taxes have only increased sixfold, in spite of the fact that taxes totaled the imposing sum of about 47 billion marks in the twelve months March, 1920-1921. At a recent conference it was estimated by the Allied experts—and in this point the German experts agreed with them—that the Germans, by increasing their taxes on wines, spirituous liquors and beers in equal proportion to those paid in Great Britain on these products, would derive additional income equal to 800,000,000 marks in gold.

The United States, Great Britain, France and Italy have enormously increased the taxation their peoples must bear since 1914. Germany has met her public expenditures by printing paper marks. The circulation of the Reichsbank, which was 26,700,000,000 marks on October 21, 1918, is now in the neighborhood of 85,000,000,000 marks. Germany's

floating debt, which was 48,000,000,000 marks on September 30, 1918, now totals nearly 190,000,000,000 marks.

The period of lax financial control outlined above seems to have come definitely to an end. When Germany realized that the Allies were not to be readily deceived as to her true capacity to make reparations, the rehabilitation of governmental finance was undertaken with characteristic energy. Inflation of circulation has been at least temporarily arrested and, with Chancellor Wirth in control, the collection of existing taxes is at last being seriously carried out. The imposition of new direct and indirect taxes is recognized by the Wirth Cabinet as essential to Germany's industrial and commercial future. Food subsidies are to be discontinued, railroad rates are to be increased, government offices are to be relieved of much of the deadweight they now carry. The possibility of placing a large funding loan is at present under consideration. There undoubtedly will be some further inflation, but the outlook is for a gradual recovery of the whole financial system of the State.

### A Fallacy in Respect to Export Trade Business

In most of the discussions of Germany's capacity to make reparations it is assumed, gratuitously, that payments can be made only through the accumulation of a large German export balance. That a favorable export balance will greatly facilitate Germany's gold payments to the Reparations Commission is undeniable, but there are other important means of settlement; such as coal, labor, raw chemicals and certain manufactures.

Why payments in such products should be arbitrarily excluded from consideration is not apparent. The Reparations Commission should have little difficulty in inducing Italy, for instance, to accept coal deliveries from Germany in lieu of gold. In France, where reconstruction is the first desire of all Frenchmen, arrangements are being made to make use of German labor, materials and machinery in rebuilding the homes and factories in the devastated regions. France will further need German coal for many years to come. Even

with all her mines again in operation France's coal production will still be at least 15 million tons a year short of her consumption.

Experts of the Reparations Commission estimate that at least one-third of Germany's annual payments under the present agreement will be made in kind. The balance will have to be paid in gold, but even so an export trade balance is not the only means at hand. Participation by Germany's creditors in certain important German undertakings is at present being very seriously considered. Other methods of payment are being discussed by German and Allied experts.

In its final analysis the reparations problem resolves itself into a question of Germany's will to pay rather than of her ability to pay. The events of the last three months have shown that public sentiment in Germany has undergone considerable change in so far as reparations are concerned. Germany realizes, dimly at least, that she can only regain the good-will of the world by making good in the measure of her utmost capacity the damage she did.

### **Present Government on the Right Track**

The present German Government undoubtedly represents those elements in Germany which desire a renewal of good relations with the rest of the world. In spite of its narrow majority in the Reichstag, it seems to have the mass of the German people behind it. As the Junker class is pushed farther and farther into the background the fulfilment by Germany of the reparations contract she signed appears more and more certain. In both France and Germany there is a growing disposition to regard the reparations question as settled in principle and to leave to qualified experts the solution of the details of the problem. Discussions and adjustments there certainly will be; indeed, they are expected.

The Loucheur-Rathenau conversations would have been impossible a year ago; to-day they are accepted without much comment. The trend of events in recent months indi-

cates definitely that the Reparations Convention of May 5th has been accepted in Europe as an equitable and workable solution of the most difficult of all post-war problems. The recovery of Europe from the effects of the war is more certain now than at any time since the Armistice.

## APPENDIX

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### The Reparations Agreement

"(1) Germany will perform in the manner laid down in this schedule her obligation to pay the total fixed in accordance with Articles 231, 232 and 233 of the Treaty of Versailles by the Commission, viz., 132,000,000,000 gold marks, less (a) the amount already paid on account of reparation; (b) sums which may from time to time be credited to Germany in respect of State properties in ceded territory, etc., and (c) any sums received from other enemy or ex-enemy Powers in respect of which the Commission may decide that credit should be given to Germany, plus the amount of the Belgian debt to the Allies, the amounts of these deductions and additions to be determined later by the Commission.

#### BONDS TO BE DELIVERED TO THE COMMISSION

"(2) Germany shall create and deliver to the Commission in substitution for bonds already delivered or deliverable under Paragraph 12c of Annex 2, Part VIII, Treaty of Versailles, bonds hereafter described.

"(a) **Bonds for the amount of 12,000,000,000 gold marks.**—These bonds shall be created and delivered at the latest on July 1st, 1921. There shall be an annual payment from funds to be provided by Germany as prescribed in this schedule in each year from May 1st, 1921, equal in amount to 6% of the nominal value of the issued bonds, out of which there shall be paid interest at 5% per annum, payable half yearly on the bonds outstanding at any time, and the balance to a sinking fund for redemption of bonds by annual drawings at par. These bonds are hereinafter referred to as bonds of Series A.

"(b) **Bonds for a further amount of 38,000,000,000 gold marks.**—These bonds shall be created and delivered at the latest on November 1st, 1921. There shall be an annual payment from funds to be provided by Germany as prescribed in this schedule in each year from November 1st, 1921, equal in amount to 6% of the nominal value of the issued bonds, out of which there shall be paid interest at 5% per annum, payable half yearly, on the bonds outstanding at any time and the balance to a sinking fund for the redemption of the bonds by annual drawings at

par. These bonds are hereinafter referred to as bonds of Series B.

### **PROVISION FOR INTEREST AND ALSO A SINKING FUND**

**"(c) Bonds for 82,000,000,000 gold marks, subject to such subsequent adjustment by creation or cancellation of bonds as may be required under the first paragraph. These bonds shall be created and delivered to the Reparations Commission without coupons attached at the latest on November 1st, 1921. They shall be issued by the Commission as and when it is satisfied that the payments which Germany is required to make in pursuance of this schedule are sufficient to provide for the payment of interest and sinking fund on such bonds. There shall be an annual payment from funds to be provided by Germany as prescribed in this schedule in each year from the date of issue by the Reparations Commission equal in amount to 6% of the nominal value of the issued bonds, out of which shall be paid interest at 5% per annum, payable half yearly on the bonds outstanding at any time and the balance to a sinking fund for redemption of the bonds by annual drawings at par. The German Government shall supply to the Commission coupon sheets for such bonds as and when issued by the Commission. These bonds are hereinafter referred to as bonds of Series C.**

**"(3) The bonds provided for in Article 2 shall be signed by the German Government as bearer bonds in such form and in such denominations as the Commission shall prescribe for the purpose of making them marketable, and shall be free of all German taxes and charges of every description, present or future.**

### **GERMANY'S TOTAL ASSETS AS SECURITY FOR BONDS**

**"Subject to the provision of Articles 248 and 251, Treaty of Versailles, these bonds shall be secured on the whole assets and revenues of the German Empire and the German States, and in particular on the assets and revenues specified in Article 7 of this schedule. The service of bonds A, B, C shall be a first, second and third charge respectively on said assets and revenues, and shall be met by payments to be made by Germany under this schedule.**

**"(4) Germany shall pay in each year until the redemption of bonds provided for in Article 2 by means of a sinking fund attached thereto:**

**"(1) The sum of 2,000,000,000 gold marks.**

**"(2) (a) A sum equivalent to 25% of the value of her ex-**

ports in each period of twelve months, starting from May 1st, 1921, as determined by the Commission, or

"(b) alternatively, an equivalent amount as fixed in accordance with any other index proposed by Germany and accepted by the Commission.

"(3) A further sum equivalent to 1% of the value of her exports, as above defined or, alternatively, an equivalent amount fixed as provided in Paragraph B above.

"Provided always that when Germany shall have discharged her obligations under this schedule, other than her liability in respect of outstanding bonds, the amount to be paid in each year under this paragraph shall be reduced to the amount required in that year to meet the interest and sinking fund on the bonds then outstanding.

#### HOW QUARTERLY PAYMENTS HAVE BEEN ARRANGED

"Subject to the provisions of Article 5, the payments to be made in respect of Paragraph 1 above shall be made quarterly on or before January 15th, April 15th, July 15th and October 15th, each year, and payments in respect of Paragraphs 2 and 3 above shall be made quarterly on or before February 15th, May 15th, August 15th and November 15th, and calculated on the basis of exports in the last quarter, but one preceding that quarter, the first payment to be made on or before November 15th, 1921, to be calculated on the basis of exports in the three months ending July 31st, 1921.

"(5) Germany shall pay within twenty-five days from this notification 1,000,000,000 gold marks in gold or approved foreign currencies or approved foreign bills or in drafts at three months on the German Treasury, endorsed by approved German banks and payable in pounds sterling in London, in francs in Paris, in dollars in New York or any currency in any other place designated by the Commission. These payments will be treated as the two first quarterly installments of payments provided for in Article 4, Paragraph 1.

"(6) The Commission will, within twenty-five days from this notification, in accordance with Paragraph 12A, Annex 2, of the Treaty as amended, establish a special sub-commission to be called the Committee on Guarantees. The Committee on Guarantees will consist of representatives of the Allied Powers now represented on the Reparations Commission, including a representative of the United States in the event of that Government desiring to make an appointment. The Committee shall comprise not more than three representatives of nationals of

other Powers whenever it shall appear to the Commission that a sufficient portion of the bonds to be issued under this schedule is held by nationals of such Powers to justify their representation on the Committee on Guarantees.

#### DUTY OF COMMITTEE ON GUARANTEES

"(7) The Committee on Guarantees is charged with the duty of securing the application of Articles 241 and 248 of the Treaty of Versailles.

"It shall supervise the application to the service of the bonds provided for in Article 2 of the funds assigned as security for the payments to be made by Germany under Paragraph 4. The funds to be assigned shall be

"(a) The proceeds of all German maritime and land customs and duties and in particular the proceeds of all import and export duties.

"(b) Proceeds of a levy of 25% on the value of all exports from Germany except those exports upon which a levy of not less than 25% is applied under legislation referred to in Article 9.

"(c) The proceeds of such direct or indirect taxes or any other funds as may be proposed by the Committee on Guarantees in addition to, or in substitution for, the funds specified in (a) or (b) above.

"The assigned funds shall be paid to the accounts to be opened in the name of the Committee and supervised by it in gold or in foreign currencies approved by the Committee. The equivalent of the 25% levy referred to in Paragraph B shall be paid in German currency by the German Government to the exporter.

"The German Government shall notify to the Committee on Guarantees any proposed action which may tend to diminish the proceeds of any of the assigned funds, and shall, if the Committee demands it, substitute some other approved funds.

"The Committee on Guarantees shall be charged further with the duty of conducting on behalf of the Commission the examination provided for in Paragraph 12B, of Annex 2 to Part VIII, of the Treaty of Versailles, and of verifying on behalf of the Commission and, if necessary, of correcting the amount declared by the German Government as the value of German exports for the purpose of calculation of the sum payable in each year or quarter under Article IV, Paragraph 2, and the amounts of the funds assigned under this Article to the service of the bonds. The Committee shall be entitled to take such

measures as it may deem necessary for the proper discharge of its duties.

## **NO INTERFERENCE IN GERMAN ADMINISTRATION**

"The Committee on Guarantees is not authorized to interfere in the German administration.

"(8) In accordance with Paragraph 19, clause 2 of Annex 2, as amended, Germany shall on demand, subject to prior approval of the Commission, provide such material and labor as any of the Allied Powers may require toward restoration of the devastated areas of that Power, or enable any Allied Power to proceed with the restoration or the development of its industrial or economic life. The value of such material and labor shall be determined in each case by a valuer appointed by Germany and an agreement, by a referee nominated by the Commission. This provision as to valuation does not apply to deliveries under Annexes 3, 4, 5 and 6, Part VIII, of the Treaty.

"(9) Germany shall take every necessary measure of legislative and administrative action to facilitate the operation of the German Reparation Act of 1921 in force in the United Kingdom and of any similar legislation enacted by any Allied Power so long as such legislation remains in force.

"The payments effected by the operation of such legislation shall be credited to Germany on account of payments to be made by her under Article 4, Clause 2. The equivalent in German currency shall be paid by the German Government to the exporter.

## **ALLIES' RECEIPTS GO TO THE COMMISSION**

"(10) Payments for all services rendered, all deliveries in kind and all receipts under Article 9 shall be made to the Reparations Commission by the Allied Power receiving the same in cash or current coupons within one month of the receipt thereof, and shall be credited to Germany on account of payments to be made by her under Article 4.

"(11) The sums payable under Article 4, Clause 3, and any surplus of receipts by the Commission under Article 4, Clauses 1 and 2, in each year not required for payment of interest and sinking fund on bonds outstanding in that year, shall be accumulated and applied so far as they will extend, at such times as the Commission may think fit, by the Commission in paying simple interest not exceeding 2½% per annum from May 1st, 1921, to May 1st, 1926, and thereafter at a rate not exceeding 5% on the balance of the debt not covered by bonds then

issued. The interest on such balance of the debt shall not be cumulative. No interest therefor shall be payable otherwise than as provided in this paragraph.

"(12) The present schedule does not modify the provisions for securing the execution of the Treaty of Versailles which are applicable to the stipulations of the present schedule."



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